

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 PA-01 L-03 H-01 /101 W
-----090712 021751Z /41

R 021733Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6375
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY ROME
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: EDITORIAL AND OFFICIAL COMMENT ON THE
DOLLAR

1. GERMAN FOREIGN EXCHANGE MARKETS AND THE GERMAN
BUSINESS AND FINANCIAL COMMUNITY ARE GRASPING AT STRAWS
IN THEIR ATTEMPT TO SEE THROUGH THEIR SELF-ADMITTED
CONFUSION ON WHERE THE DOLLAR IS GOING. RUMORS ABOUND
THAT THE BUNDESBANK WILL TAKE SOME ACTION AND ARE DENIED
-- TOO QUICKLY SOME THINK -- BY GOVERNMENT AND BUNDESBANK
LEADERS. THE PSYCHOLOGY OF THE FOREX MARKET IS NERVOUS
AND EXPECTANT AND THE OUTLOOK IS FOR MORE OF THE SAME.

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2. YESTERDAY'S FALL OF THE DOLLAR BELOW \$1 DM 2
SPARKED A FLURRY OF EDITORIAL COMMENT MUCH OF WHICH
EXPRESSED DISBELIEF AND/OR CONFUSION AND RAILS AT U.S.
POLICY OR LACK THEREOF. THE FRANKFURTER ALLGEMEINE (FAZ)
FOR INSTANCE IN A FRONT PAGE COLUMN WRITES: "WHAT
THE AMERICANS DO WITH -- OR LET HAPPEN TO -- THE DOLLAR
IS INCOMPREHENSIBLE TO EUROPEANS. IT IS, OF COURSE,

. AMERICA'S DOLLAR BUT IT IS ALSO THE DOLLAR OF ALL OF US." DIE ZEIT, COMING FROM A SOMEWHAT DIFFERENT ANGLE, WRITES IN A MAJOR ARTICLE IN THE ECONOMIC SECTION: "UNTIL RECENTLY THE FRG HOPED THAT THE CARTER ADMINISTRATION'S INACTIVITY WAS MERELY TEMPORARY AND TRACEABLE TO INEXPERIENCE. WHAT STIMULATED BONN'S BELIEF IN THE GOODWILL OF THE U.S. WAS WASHINGTON'S STATEMENT IN JANUARY THAT THE U.S. WOULD TAKE ACTION TO SUPPORT THE DOLLAR ... IT HAS BECOME CLEAR THAT CARTER DOES NOT WANT TO STOP ITS DECLINE AND EVEN WELCOMES IT. FOR HE SEEKS A SHOWDOWN ON THE FOREIGN EXCHANGE MARKET -- A DUEL WITH HELMUT SCHMIDT." AGAIN USING THE DIRECT APPROACH, THE FAZ: "THE U.S. SECRETARY OF THE TREASURY BLUMENTHAL IS APPARENTLY THE MAN WHO, WHILE REASSERTING THE NEED FOR A STRONG DOLLAR, DOES NOT CARE ABOUT ITS DECLINE. U.S. ECONOMIC HISTORY WILL PRAISE HIM FOR THIS ... HIS RECIPE IS BOTH SIMPLE AND SHORT-SIGHTED HE BELIEVES THAT A DEPRECIATED DOLLAR PROMOTES AMERICAN EXPORTS AND MAKES IT DIFFICULT FOR COUNTRIES WITH A HARD CURRENCY TO EXPORT TO AMERICA AND TO THIRD MARKETS. THUS, HE LETS THE DOLLAR DROP. THIS IS A POLICY OF NATIONAL PROTECTIONISM CARRIED ON WITH MONETARY MEANS WHICH ARE NO BETTER THAN PROTECTIVE TARIFFS OR ADMINISTRATIVE OBSTACLES TO TRADE."

3. COMMENTARY IN GENERAL HIGHLIGHTS THE POTENTIALLY LIMITED OFFICIAL USE

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HARMFUL EFFECTS TO THE GERMAN AND WORLD ECONOMIES OF AN "UNDERVALUED" DOLLAR AND A DOLLAR IN WHICH THERE IS NO CONFIDENCE. INFLOWS OF SPECULATIVE FOREIGN CAPITAL

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WHICH ENDANGER THE BUNDESBANK'S MONETARY GROWTH GOAL, LOSS OF EXPORT MARKETS AND JOBS AND INFLATION ARE PRESENTED AS CONSEQUENCES. AND SO THAT AMERICANS ARE NOT LEFT UNTOUCHED, THE PRESS CITES AMERICAN GI'S SENDING THEIR WIVES HOME BECAUSE OF THE EXPENSE OF LIVING IN GERMANY AND REPORTS THAT INCOMES OF SOME HAVE FALLEN UNDER THE OFFICIAL POVERTY LEVEL.

4. THERE IS, HOWEVER, ALMOST COMMON AGREEMENT ON WHAT THE MAJOR CAUSES OF THE DOLLAR DECLINE ARE: THE U.S. TRADE DEFICIT IN GENERAL AND THE OIL BILL IN PARTICULAR. THE FED'S FAILURE TO INTERVENE "FORCEFULLY" ALSO RECEIVES NOTICE, AS DOES USG INATTENTION TO INFLATION.

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5. OFFICIAL COMMENT OF LATE HAS BEEN A MIXED BLESSING. ECONOMICS MINISTER LAMBSDORFF'S EQUIVOCAL REPLY TO AN INTERVIEWER'S QUESTION ON WHETHER THE DOLLAR COULD FALL TO DM 1.80 IS THOUGHT BY SOME TO HAVE TRIGGERED THE FALL TO BELOW \$1 EQUALS DM 2.00. BUNDESBANK PRESIDENT EMMINGER'S RECENT REMARKS THAT THE BUNDESBANK WOULD CONTINUE TO LEND SUPPORT TO THE DOLLAR BUT THAT ASSISTANCE HAD ITS LIMITS WAS LIKEWISE SUBJECT TO DIFFERING INTERPRETATIONS. EACH HAS ALSO SAID THAT THE DOLLAR IS UNDERVALUED, IN EMMINGER'S VIEW BY AS MUCH AS 20 PERCENT ON A PURCHASING POWER PARITY CALCULATION.

6. FINANCE MINISTER MATTHOEFER IN A TELEVISION INTERVIEW LAST NIGHT ALSO ATTEMPTED TO POUR OIL ON THESE TROUBLED WATERS. IN AN ASSURED MANNER MATTHOEFER PREDICTED THE STRENGTHENING AND STABILIZATION OF THE

DOLLAR RESULTING FROM THE COOPERATIVE EFFORTS OF THE
CENTRAL BANKS OF IMPORTANT U.S. TRADING PARTNERS.

7. THE DOLLAR WAS FIXED TODAYT \$1 EQUALS DM 2.0085 AND THERE
WAS NO ACTION TAKEN AT TODAY'S CENTRAL BANK COUNCIL
MEETING TO IMPOSE FOREIGN EXCHANGE CONTROLS AS HAD
BEEN RUMORED.
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